Testimony on the Operation, Impact, and Future of the U.S. Preference Programs

by

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on behalf of the

National Council of Textile Organizations (NCTO)

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Chairman Levin and Ranking Member Brady, thank you for the opportunity to testify on this subject that is so important to the U.S. textile industry and our workers.

My name is David Hastings, I am the CEO of Mount Vernon Mills, one of the largest textile employers in the country and Vice Chairman of the National Council of Textile Organizations. The overall U.S. textile sector employs over 600,000 workers and exports more than $12 billion in product components a year. The U.S. textile industry is the third largest exporter of textile products in the world, 75% of which are exported to trading partners in the Western Hemisphere, specifically the CAFTA, NAFTA, and ANDEAN regions.

Mount Vernon Mills employs 2,657 textile workers in seventeen facilities, located primarily in rural areas of the southeast. Our largest textile facility is located in Trion Georgia, employs 1,142 workers and has been a mainstay in the Trion community since 1845. Most of the products that Mount Vernon makes are exported to the NAFTA, CAFTA and Andean regions under current preference and FTA programs.

Mister Chairman, it is no secret that our country is in the middle of a perilous time. One out of every ten manufacturing jobs has been lost since this Congress came to session in January. That is 1.2 million manufacturing workers, including 55,000 textile and apparel workers, who are now looking for work. Out of the 687,000 jobs delivered by the stimulus bill, a mere 2,200 have been in the manufacturing sector.

Eleven days ago on November 7th, Mount Vernon announced that there were several job openings at the Trion plant and people began lining up outside the plant at 4 am that morning just to apply. By noon, we had taken 270 applications from people looking for work. Similar reports have been publicized nationwide and the scenario that played out at our Trion plant just ten days ago is indicative of the weakness of the U.S. economy. Mister Chairman, our workers are hurting in this country, hardworking men and women have lost good paying jobs since the recession began in December 2007. I urge this committee to consider proposals that will stimulate job creation as opposed to creating jobs in other countries that could harm vital industries in the U.S.

On behalf of NCTO and the entire U.S. textile industry, I strongly urge the Subcommittee on Trade to keep in mind that our country and our manufacturing sector is hurting badly. As this subcommittee reviews different options regarding preference programs, I urge you to ensure that no action is taken that could potentially cause further job losses in the U.S. It is my understanding that the Committee is considering a proposal to extend duty free status to apparel imports from Bangladesh and Cambodia as a part of broad trade preference reform. Of the 55 countries in the current trade preference and free trade areas not a single country or NGO support granting any sort of preference to these two countries. In fact, not one country has asked for broad trade preference reform for textiles. There are 42 textile and apparel associations from 28 countries in Africa and the Western Hemisphere, including Least Developed Countries such as Haiti, and they have requested that I present to the Committee a letter (attached) stressing strong opposition to any such effort. I ask that the letter be submitted to the hearing record.

As this Committee considers this proposal, I appeal to you to keep in mind the workers at our Trion facility and of textile facilities across the country. Their livelihoods literally rest in your hands. I would encourage you to watch a short CNN piece about the workers at our Trion facility, their commitments to the jobs and the generations of workers, often from the same family, that have been employed by this plant. If this Committee grants these large competitive countries duty-free status, Mount Vernon's Trion facility, and many others, will be forced to close. And, in the case of Trion, the U.S. military will lose one of the country's largest producers of combat fabric for our soldiers.

The U.S. military depends on the U.S. textile industry for more than 8,000 different products. These include not only uniforms but radar dampening tents that can hide tanks from overhead view, textile armor plating, uniforms, protective gear biological and chemical weapons, fire protection gear, parachutes, high tech mobile medical stations, and myriad other items. However the textile industry cannot provide these innovative products for our soldiers if programs like the Bangladesh-Cambodia proposal are put into place. If large sections of the industry are forced to shut down, the industry will be unable to provide the production scale that allows it to service the U.S. military, which accounts for ten percent of textile industry sales.

Most textile companies do not produce solely for the military, but rather as a component of their business. When U.S. textile companies are forced to close, the military is forced to rely on foreign companies to provide the items needed by the armed forces. As a nation, we become dependent on the good graces of other countries to clothe and protect our military. This is not merely an economic issue, but also a national security issue.

Economics 101 is at the heart of this very grim assessment. Bangladesh already pays its workers the lowest wages of any apparel producer in the world. The minimum wage for apparel workers in Bangladesh is 11 cents an hour. On top of that, Bangladesh has a long history of worker abuse. Over the last six months, tens of thousands of garment workers have taken to the streets and rioted on multiple occasions over wages and working conditions, and multiple deaths have resulted. This violence occurred in the midst of a 15 percent surge in overseas orders after some apparel producers announced they were cutting wages by as much as 20 to 30 percent in order to stay "competitive[1]."

The labor violence is Bangladesh is not new. The AFL-CIO has become so alarmed by the treatment of workers in this region that it has established three monitoring offices in the country. Their most recent report was disheartening to say the least and concluded despite being under GSP petition for labor rights violations that worker abuse in the vast garment making areas has gone unchanged. The AFL-CIO concluded that the only thing which had changed was that the government's claims of having solved the problems had become even more absurd over time.

Three years ago, much of the Bangladesh apparel supply chain, which tops out at more than two million workers, was wracked by riots resulting again in many deaths. Entire cities were brought to a standstill. Worker complaints in 2006 are the same as they are today: extremely low wages, failure to pay wages, refusal to pay overtime and refusal to pay benefits. While no country has a perfect labor record, the problems in the Bangladesh garment sector are far larger and more acutely pervasive than any other apparel producer in the world with the exception of China.

In addition, most of Bangladesh's fabrics and textile and apparel components are sourced from China, a country that has an enormous state-run, subsidized textile and apparel sector. Since the global crisis began, China which has increased its textile export subsidies by 40 percent or ten billion dollars announced a new round of internal subsidy programs and effectively depreciated the Yuan by seven percent by pegging it to the declining U.S. dollar. This has caused China's textile and apparel exports to Bangladesh and other countries, including the United States to <u>increase</u> in a steadily <u>declining</u> market. The U.S. government has had no reaction and China is once again being rewarded for taking predatory steps to gain world market share at the expense of its trading partners and their workers. And this duty free concept for Bangladesh and Cambodia dramatically increases that reward.

The tough competitive environment forces U.S. importers and retailers to purse these opportunities. When Bangladesh is able to produce a pair of trousers using subsidized Chinese fabric for $5.76 each, and those trousers end up on the retail shelves selling for $30, the enormous and lucrative profit opportunities for U.S. sellers is obvious. In addition, U.S. retailers currently pay $1 billion a year in duties to the U.S. Treasury on apparel products brought in from Bangladesh and Cambodia. If these countries are awarded duty preferences, that one billion dollars in revenue will be transferred from the U.S. Treasury to those companies. <u>This would create a powerful and unstoppable incentive to move additional sourcing to those</u>

[1]The Financial Express, 6/29/09. http://www.thefinancialexpress-bd.com/2009/06/29/71417.html

countries from the preference and FTA areas.

Mister Chairman, I grew up in Greenwood South Carolina; my mother worked her entire career at the Greenwood Mills. Her hard work paid off to the point that I was able to become the CEO of Mount Vernon Mills. That story of opportunity and promise has been replayed in some of the poorest sections of this country for generations. U.S. mills and other manufacturers over the generations have provided security, stability and upward mobility to millions of U.S. workers.

That story has also been replayed around the world. The U.S. has extended special access in textiles and apparel to 55 countries. Through the AGOA, ANDEAN, CAFTA, NAFTA and Haiti programs, two-way trade worth nearly $30 billion dollars has been exchanged over the past three decades. Millions of workers have been lifted out of poverty because of these programs. However, these gains are threatened by the proposals to extend new preferences to Bangladesh and Cambodia.

With the recent removal of quotas, countries that heavily subsidize their textile export sectors, practice currency manipulation, pay only the very lowest wages and in many cases abuse their workers have seen importers flock to their shores. Since 2004, China has gained $14 billion in new apparel exports while Bangladesh and Cambodia have increased by an astonishing 63 percent; in dollars this translates into over $2 billion.

And this is only the beginning: Mr. Parvez, the president of Bangladesh Garments Manufacturers and Exporters Association (BGMEA), sees only sunny times ahead, regardless of whether preferences are granted. In 2008, he predicted[2] that Bangladesh's apparel exports would nearly triple over five years and that Bangladesh would increase its workforce by 1.4 million. We see some of this already playing out; granting duty free access will only exacerbate the problem.

The donor countries have been our preference and FTA partners. Over the last five years, apparel imports from the CAFTA countries have fallen 32 percent, the Andean countries are down 30 percent and the AGOA countries are down 40 percent. Bangladesh and Cambodia have primarily targeted the product areas that the preference and FTA countries export in.

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[2] "Bangladesh eyes $25 bln in textile exports by 2013", Reuters India, April 16, 2008, http://in.reuters.com/article/businessNews/idINIndia-33072920080416

Bangladesh and Cambodia Have Targeted the Top Preference Country Exports (2004-08)				
Top Three Preference Country Exports	Preference and FTA countries		Big Two: Bangladesh and Cambodia	
	Change	Percentage	Change	Percentage
1. Knit Shirts (338/9)	-$1.1 billion	-18%	$803 mil.	231%
2. Cotton trousers (3347/8)	-$2.6 billion	-41%	$1.3 bil.	198%
3. MMF trousers (647/8)	-$402 mil.	-29%	129 mil.	90%
- Total Top Three Export Categories	-$4.1 bil.	-29%	$2.2 bil.	194%
Source: USITC.				

The U.S. textile industry, in turn, has lost more than 150,000 jobs. Trade associations and their member companies have heard from the companies that source in Africa and the Western Hemisphere and their response is almost unanimous: we will move our operations to Bangladesh and Cambodia if these countries are granted preferences. This word comes from some of the largest companies that source in the Western Hemisphere and Africa.

The combination of extraordinarily low wage rates, subsidized fabric from China and a transfer of one billion dollars in duties from the U.S. Treasury to retailers and importers will be impossible to ignore. Virtually every textile and apparel trade association reports the same thing: the sheer volume and capacity in those two countries is so large – they currently ship 1.9 billion garments a year to the U.S. – that granting preference to these two countries will decimate the textile and apparel sectors throughout the free trade and trade preference areas.

For instance, cotton trouser imports is the largest value line for many of the preference countries, if Bangladesh were to be granted duty free access in this line it would crush all competition (i.e. all preference country competition).

To give some sense of their size, Bangladesh and Cambodia today ship three times as much apparel as Honduras, the largest CAFTA exporter, six times as much apparel as the entire AGOA region, and thirteen times as much as Haiti into the U.S. market.

Average Price of Men's Cotton Trousers Entering Duty Free		
Country	Average Unit Price with Duty-Free Access	Bangladesh Price Advantage
Bangladesh	**$5.76**	-
Nicaragua	$6.79	18%
Haiti	$7.03	22%
Egypt	$7.10	23%
Kenya	$7.14	24%
Dominican Republic	$8.42	46%
Colombia	$9.58	66%
Source: USITC, 6203.42.40.16, 2008. Bangladesh would receive a 16.6% duty benefit on these trousers if duties were removed.		

The consequences of such a shift should be carefully considered: textile and apparel manufacturing in the CAFTA/Andean/ NAFTA region employs nearly 1.5 one million workers and the effect of throwing hundreds of thousands of those workers out of their jobs would further destabilize the region, during a time in which several anti-U.S. governments are emerging and increasing their influence in the Western Hemisphere.

In Africa, the elimination of the textile and apparel sector in some of the poorest, most vulnerable countries on earth would be reversal of a decade of efforts to help Africa grow economically. AGOA, as an effective preference program, would be destroyed. And it means the elimination of large scale manufacturing on the continent and would condemn Africa to continue as an agricultural and raw material resource producer.

In the U.S., hundreds of thousands of textile workers would lose their jobs and plants across the rural Southeast would close. In Trion, GA, a textile complex that has provided over 1,100 workers with competitive wages and benefits would close and the unemployment rate, which hit 18 percent this year, will skyrocket.

In all these places, from Haiti to Lesotho to Lima to San Salvador to Trion, Georgia, there are <u>NO</u> jobs to replace these jobs.

Given the consequences, the subcommittee must carefully study and analyze its options. It must examine the impact not only on the U.S. textile manufacturing sector but on trade preference countries, FTA partners and other countries as well. In considering trade preference reform, the subcommittee needs to understand that broad changes to trade preference rules or the inclusion of large competitive countries alters the playing field for all exporters of textile and apparel. Therefore, the impact on FTA partners that are major exporters must be included and their voices must be heard during the Committee's deliberations.

Solutions:

1) With regard to trade preferences, Congress <u>must</u> pass an Andean trade preference extension immediately. The Andean trade preference act is about to expire, Congress has still not authorized an extension of this important program, and trade is already leaving the region. During these particularly difficult times, companies cannot operate under uncertainty regarding whether they are going to have to pay duties or not. The continuing delay means that companies are now turning to other countries, including China, because they do not know whether or not Congress will extend these benefits. We strongly urge the Committee to move immediately to extend these benefits and preserve this trade and the many American and Andean jobs that depend on it.

2) The biggest positive impact that the Committee could have on U.S. textile manufacturing, AGOA, the CAFTA/NAFTA/AGOA region <u>and on</u> Bangladesh and Cambodia would be to take action against China. China employs more than 60 subsidies to support its textile and apparel sector, manipulates its currency to gain an export advantage, and, according to the U.S. government, instituted a whole series of new, possibly illegal, textile subsides in August. In

addition, over the past year, China has increased its textile export subsidies by 40% or ten billion dollars in violation of its commitment to the G-20 not to engage in protectionist activity.

As a result of its government's intervention into its textile exports, China has disadvantaged every major textile and apparel exporting country in the world. Over the past five years, as quotas and safeguards have been removed, China has increased its share of the U.S. textile and apparel market from 17 percent to a new high of 45 percent in August. Its textile and apparel exports have increased by $17 billion.

This enormous surge has not been isolated to textiles and apparel. Chinese manufactured exports over the last five years to the U.S. have more than doubled as China continues and increases its predatory export policies. The cost to America's workers has been enormous – according the economic reports, millions of U.S. manufacturing jobs have been lost as a result and our country's economic sovereignty is now threatened as trillions of dollars of U.S. wealth have been transferred overseas. In my opinion, one of the most powerful steps that this Committee could take on behalf of our entire country and our countries future would be to begin to hold China accountable for its predatory policies.

3) A final solution is that the government should do more to support manufacturing. As jobs have been bleeding out of this sector, our nation has been losing the most productive, highly paid and value-added workers in our economy. This does not have to be. While other advanced economies such as Germany maintain a robust manufacturing sector (Germany's manufacturing sector accounts for 25 percent of its GDP, while the U.S. share has now fallen to 12 percent), our country's tax, investment and trade policies have encouraged the offshoring of millions of U.S. jobs. I urge the Committee to create new incentives to bring manufacturing jobs back to our country and restore our country's economic and fiscal health.

Conclusion:

What troubles me and so many in this country and in the preference countries is that this proposal rewards those very practices that we find abhorrent in our country. It rewards the lowest common denominator at any price, whether through illegal subsidies, currency manipulation or abusive labor practices. It sends a message to the trade preference countries and our FTA partners that playing by the rules does not work and the commitments that we have made over the decades to help them are null and void. It sends a message to U.S. manufacturers that the best thing to do is close your plants, fire your workforce and move overseas because the U.S. government is no longer committed to manufacturing in the U.S.

Mister Chairman and members of the Committee, I do not believe that a single U.S. citizen supports jeopardizing another U.S. job. In particular, we should not be abandoning manufacturing jobs when the President, Federal Reserve Chairman Ben Bernanke, former

Chairman Paul Volcker and scores of economist have said that the only way for the U.S. to begin to prosper is for our country to produce more and export more. This proposal is completely counter to that important message. Seventy five percent of U.S. textile exports go to the trade preference countries – over ten billion dollars year – and this proposal will be a death knell to much of that business.

I also do not think we should abandon our free trade and preference program partners in order to reward countries that barely pay their workers or engage in predatory and illegal subsidy schemes. Instead, I believe that we should be focusing our efforts on ensuring a prosperous future for the U.S. worker, as well as the millions of workers in the preference and free trade areas.

Thank you and I will be pleased to answer your questions.

November 16, 2009

The Honorable Charles Rangel
The Honorable Dave Camp
The Honorable Sander Levin
The Honorable Kevin Brady
Committee on Ways and Means
Subcommittee on Trade
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Dear Members of the Committee:

As 43 representative groups from 28 trade preference countries and free trade areas, we are writing to express our opposition to a proposal that has been made to extend new textile duty benefits to Bangladesh and Cambodia as part of your review of trade preference rules.

In our countries, the current trade preference and free trade rules have created jobs for nearly two million textile and apparel workers in our countries. As a result of the work the U.S. Congress has done over the last three decades, our workers have seen their lives lifted from poverty in some of poorest countries on earth. In turn, the extension of these duty free benefits in trade preference and free trade areas have created major industries that now provide crucial economic stability in many areas around the world that are important to the United States. These areas include Africa, the Central American and Caribbean countries (including Haiti), the Andean countries and the nations of the Middle East.

The trade programs that Congress has created produce two way trade with the United States in textiles and apparel that totals more than $30 billion a year. These programs were carefully deliberated by the Congress over many years. Any adjustments to the basic rules that govern these programs need to be carefully evaluated and studied. In particular, proposals that impact developing and vulnerable economies could produce catastrophic results, including large scale job losses and economic and political instability. That is why any proposed changes to these programs must be thoroughly studied and analyzed.

Last April, a group of importers, retailers and NGO's proposed new trade preferences for Bangladesh and Cambodia. Specifically they proposed that these two countries should receive duty free access to the U.S. market for textile and apparel products, including those product categories that our export industries depend upon. In a letter accompanying their proposal, they noted that their proposal was the result of "several years of discussions and hard work" and that their proposal will "preserve the successes of current programs" and in particular cited a decline in imports from Sub-Saharan Africa as a reason to act.

We want to be clear that <u>none</u> of the trade preference countries or free trade partners endorsed this approach or asked that this group to represent them. Neither did any NGO or trade association from any of the 40 trade preference or free trade areas, including Sub-Saharan Africa. In fact, just the opposite is the case. This proposal has caused enormous concern in our countries because of the devastation it would cause to our textile and apparel sectors and our economies.

Since this proposal was made public, we have been told by many of the largest companies that source goods in Africa and the Western Hemisphere that they will move their sourcing to Bangladesh and Cambodia if this proposal becomes law.

The reason is simple economics. Bangladesh and Cambodia are already among the lowest priced producers in the world. Under the importer proposal, importers and retailers would get an immediate savings of nearly one billion dollars a year through the removal of duties and this number would only grow with every order transferred from the preference and FTA countries.

Over the last five years, Bangladesh and Cambodia countries have built up large and competitive apparel sectors by taking market share and business from trade preference and free trade areas. Since 2004, apparel imports from Bangladesh and Cambodia have increased by 63 percent, an enormous increase that totals $2.1 billion dollars. These two countries today export six times as much as the AGOA region combined and twelve times as much as Haiti. At the same time, China has more than doubled its apparel exports to the United States.

The donor countries for this growth have largely been the preference countries and FTAs whose exports have dropped by $7.3 billion, a decline of 38 percent, since 2004. We have already lost hundreds of thousands of irreplaceable textile and apparel jobs. In the top three categories that the preference countries export (cotton and man-made fiber trousers and knit shirts), Bangladesh and Cambodia have increased their exports by 194 percent while our exports have dropped 40 percent.

The Chairman of the Bangladesh Garment Workers Union predicted last year that Bangladesh, <u>even without preferences</u>, would nearly triple its worldwide apparel exports over the next five years and add 1.4 million jobs.

Given these startling statistics, we are convinced that extending new duty benefits to countries that already have large and growing apparel export sectors would threaten the livelihoods of more than a million of our textile and apparel workers. Trade statistics clearly demonstrate that these countries are growing at the expense of regions that the Congress has clearly indicated deserve special assistance. Preferences programs are designed to help countries with struggling sectors become more competitive, not to boost those countries that already have large, growing and competitive sectors.

We strongly urge you to help us to preserve the nearly two million jobs that benefit so many of our workers by rejecting trade proposals that would further concentrate trade in a small handful of countries.

Sincerely,

<u>AFRICA:</u>

African Cotton and Textile Industries Federation (ACTIF)

- Botswana: Exporters Association of Botswana
- Egypt: Alexandria Cotton
- Ethiopia: Textile and Garment Manufacturing Association
- Kenya: Kenya Apparel Manufacturers and Exporters Association
- Kenya: Kenya Association of Manufacturers (KAM)
- Lesotho: Lesotho Textile and Clothing Industries (LTCI)
- Madagascar: Groupement des Enterprises franches et Partenaires (GEFP)
- Mozambique: Cotton Association in Mozambique (AAM)
- Malawi: Garment and Textile Manufacturers Association
- Mauritius: Export Processing Zone Association
- Namibia: Namibian Manufacturers Association (NMA)
- South Africa: South African Textile Federation
- South Africa: Cotton South Africa
- South Africa: Export Council for the Clothing Industry
- Sudan: Sudan Cotton Company
- Swaziland: Swaziland Cotton Board

- Tanzania: Tanzania Cotton Association
- Tanzania: Tanzania Cotton Board
- Uganda: Uganda Ginners and Exporters Association
- Uganda: Cotton Development Organization
- Uganda: Uganda Textiles and Garment Manufacturers Association
- Zambia: Zambia Textile Manufacturers Association
- Zimbabwe: National Cotton Council

The Whitaker Group

Africa Council on Trade

CENTRAL AMERICA and the CARRIBEAN REGION

Costa Rica: Camera Textile Costarricense

Dominican Republic: Associacion Domincia de Zonas Francas

El Salvador: Camara de las Industria Textil y de Confeccion de El Salvador

Guatemala: Comision de la Industria de Vestuario y Textiles (VESTEX)

Haiti: Association Des Industries D'Haiti (ADIH)

Honduras: Asociacion Hondureña de Maquiladores

ANDEAN REGION:

Colombia: Asociacion Colombiana de Productores Textiles (**ASCOLTEX**) (tent.)

Ecuador: Asociación de Industriales Textiles del Ecuador (AITE)

Peru: Comite Textil - S.N.I.

NAFTA REGION

Mexico: Ca¡mara Nacional de la Industria Textil de Mexico (CANAINTEX)

UNITED STATES:

American Fiber Manufacturers Association (AFMA)

American Manufacturing Trade Action Coalition (AMTAC)

National Cotton Council (NCC)

National Council of Textile Organizations (NCTO)

National Textile Association (NTA)

Sewn Product and Equipment Suppliers of the Americas (SPESA)

United States Industrial Fabrics Institute (USIFI)

Workers United, a member of Service Employees International Union (SEIU)